

## Message Text

CONFIDENTIAL

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73

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 SAL-01 OMB-01 NSC-10 SS-14 STR-08

CEA-02 RSR-01 /135 W

----- 055992

R 291654 Z MAR 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4187

INFO AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 4654

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN CENTRAL BANK COUNCIL TAKES NO ACTION TO EASE  
CREDIT CONDITIONS

1. THE CENTRAL BANK COUNCIL AT ITS REGULAR MEETING TODAY TOOK  
NO ACTION TO PROVIDE RELIEF FROM THE EXTREMELY TIGHT MONETARY  
CONDITIONS ( WITH CALL MONEY AT ABOUT 20 PERCENT PER ANNUM)  
OTHER THAN TO INDICATE THAT IN SOME INDIVIDUAL CASES, LAND  
CENTRAL BANKS MIGHT GRANT TEMPORARY LOMBARD CREDITS ( LOANS  
AGAINST COLLATERAL) ABOVE THEIR NORMAL " QUOTA" FOR BANKS FACING  
A LIQUIDITY SQUEEZE. AT A PRESS CONFERENCE BUNDESBANK PRESIDENT  
KLASEN INDICATED THAT ( A) THE BUNDESBANK CONSIDERS THE PRESENT  
TIGHT MONETARY CONDITIONS AS A SYMPTOM OF THE SUCCESS OF RECENT  
MEASURES TO CURB INFLATION AND NOT AS A SIGN OF ANY REAL  
LIQUIDITY CRISIS; ( B) TEMPORARY FACTORS ARE CONTRIBUTING TO THE  
TIGHT MONEY ( DM 1.5 BILLION STABILITY LOAN, THE TAX DUE DATES,  
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100 PERCENT MINIMUM RESERVES FOR MARCH ON FOREIGN DEPOSITS DURING FEB 15- MAR 15 PERIOD). WE ARE TOLD PRIVATELY BY BUNDESBANK OFFICIALS THAT SOME RELAXATION OF MONEY MARKETS CAN THEREFORE BE EXPECTED IN APRIL WITH DAILY MONEY RATES DROPPING TO MAYBE 8-9 PERCENT PER ANNUM; ( C) THE DOLLAR HAS REMAINED FIRM DESPITE THE VERY TIGHT MONEY AND THE BUNDESBANK EXPECTS SOME OUTFLOW OF FOREIGN EXCHANGE IN APRIL; ( D) THE BUNDESBANK CONSIDERS A RAISING OF THE DISCOUNT RATE AS INAPPROPRIATE FOR INTERNATIONAL REASONS.

2. IN PRIVATE CONVERSATIONS WITH BUNDESBANK OFFICIALS WE ALSO HAVE NOTED WHAT MIGHT ALMOST BE DESCRIBED AS SMUGNESS CONCERNING THE TIGHT MONEY. SOME HIGH BUNDESBANK OFFICIALS FEEL VERY STRONGLY THAT BANKS MUST BE " TAUGHT A LESSON" AFTER THEIR IRRESPONSIBLE EXPANSION OF CREDIT IN THE PAST BEFORE IT CAN BE HOPED THAT CENTRAL BANK INSTRUMENTS CONTROLLING THE VOLUME OF MONEY CAN BECOME EFFECTIVE IN THE FUTURE. HILLENBRAND

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* CONFIDENTIAL

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**Subject:** GERMAN CENTRAL BANK COUNCIL TAKES NO ACTION TO EASE CREDIT CONDITIONS  
**TAGS:** EFIN, GW  
**To:** BRUSSELS  
EC BRUSSELS  
EUR  
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ROME

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